

INSTITUTIONAL COMPETITIVENESS: A BROAD PERSPECTIVE ON THE DANISH CASE

The ability of countries to achieve socioeconomic success depends not just on the macroeconomic policies that their governments pursue but also on the institutions within which their firms operate. In other words, national socioeconomic performance depends in part on the nation's institutional competitiveness, by which I mean its capacity to achieve socioeconomic success as a result of its political, economic, and cultural institutions.

This paper examines a few of the ways in which Denmark has achieved institutional competitiveness in the global economy during the last fifteen years or so. It argues that Denmark's impressive socioeconomic performance stemmed in part from its institutional capacities to generate strong economic growth and distribute the benefits of that growth rather equitably among the population. It also raises questions for the future that are intended to stimulate debate about how best to manage Danish institutions to ensure Denmark's institutional competitiveness in the future. In brief, the paper argues that Danish institutional competitiveness has stemmed from a combination of liberal and coordinated types of advanced capitalism, which have (1) increased the exposure of actors to market forces and (2) decentralized collective learning and decision-making institutions in ways that have enhanced the capacity of decision makers in the public and private sectors to collectively learn and flexibly adapt to their increasingly volatile and global environment. The flexicurity system and other labor market institutions are noted as examples. Other important points made in the paper include the following:

1. There is no one best institutional practice. Today the most successful countries—including Denmark—may have very different institutional profiles from each other.
2. High taxes and high levels of government spending have had positive rather than negative effects on Denmark's performance insofar as they have supported the other institutions that have provided for her institutional competitiveness.
3. Welfare spending should not be reduced significantly if social equality and, in turn, social cohesion are a national priority. This is important because social cohesion has contributed to Denmark's ability to adapt flexibly to globalization.
4. Institutions are tightly coupled. Changing one institution can have unintended consequences for the performance of other institutions. Hence, when things are going well, as they are in Denmark, decision makers ought to consider staying the course rather than pursuing major institutional changes.